Size and Competitiveness: An Examination of the CARICOM Single Market and Economy (CSME)

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Size and Competitiveness: 
An Examination of the CARICOM Single Market and Economy (CSME)

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ABSTRACT  CARICOM economies now face serious macroeconomic challenges that threaten not only their developmental prospects but arguably their survival. The intensification of trade liberalisation, the erosion of preferential trade and the proliferation of regional trading blocs (RTAs), have brought into question the region’s continued reliance on preferential arrangements and, more importantly, its ability to compete effectively in international markets.

New strategies are essential for these countries to increase revenue-generating capacity and stimulate economic growth necessary for sustained development. The CARICOM Single Market (CSM), launched in 2007, is regarded as a critical move to address small size and competitiveness problems plaguing the region and to facilitate its effective participation in the international economy. Advocates contend that the regional pooling of resources and markets is essential for enlarging productive capacity and product range, which could translate into increased competitiveness for CARICOM firms.

While the governance, institutional and economic mechanisms for the full implementation of the CSM(E) are being developed, there appears to be no clear articulation of mechanisms that address issues such as productivity, firm competitiveness and strategies, product selection and rationalisation at both the country and regional levels. This paper seeks to highlight some of these critical competitiveness issues.

KEY WORDS: Small Developing States (SIDS), CARICOM, competitiveness, CSM(E), trade liberalisation, development

Introduction

Building and sustaining competitiveness is a principal objective of firms and countries alike, mainly because it is the mechanism through which day-to-day operations and future development initiatives are financed. In essence then, competitiveness is a key indicator of firm or country success.
While competitiveness is by no means a new phenomenon, the post-Cold War move towards free market economics and free trade policies is so effectively transforming the international economy into a single global economic space that traditional markets and investments are no longer guaranteed.

This restructuring of the global economy with its emphasis on trade liberalisation has forced Caribbean Community (CARICOM) microstates to critically evaluate not just their economic performance, but also their development prospects with a view to formulating appropriate responses to facilitate more meaningful participation in international markets.

This paper advances the view that the survival of CARICOM states necessitates (i) fundamental economic restructuring aimed at developing new, globally competitive industries and (ii) strategic regional and global repositioning to operationalize and sustain this new development path. It argues that smallness poses particularly severe challenges for individual economies to overcome and advocates a regional approach to development with the CARICOM Single Market Economy (CSM(E)) as the principal driver. CSM(E)’s ability to meet regional competitiveness and development expectations must also be critically examined.

As early as 1989, CARICOM states faced the grim prospect of erosion and ultimate elimination of preferential market access for their major agricultural exports. Since these preferential arrangements have been the basis for generating economic activity in these small, mono-crop economies, CARICOM heads recognised that new strategies centred on competitiveness were critical to the region’s survival. The realisation is reinforced by CARICOM countries’ obligations under the World Trade Organization (WTO) to fully liberalize their domestic markets in goods and eventually services. Removing barriers to trade has highlighted CARICOM’s weak competitive position in terms of ability to defend home markets from an influx of extra-regional products, and to compete successfully in regional and extra-regional markets.

What makes the situation even more challenging for CARICOM states is the fact that developments in information and communication technologies (ICT) are changing the basic notions of competition and competitiveness strategies. The global economy is now driven by new products and services that embody knowledge, innovation and technology to such an extent that this is shortening and shifting value chains and affecting production processes and delivery modes. The digitized global economy underscores two significant facts: firstly, that competition based on neoclassical definitions of comparative advantage is now untenable, and secondly, that access to and dominance of any market is a fleeting and difficult prospect that requires targeted strategies involving firm and government collaboration.

CARICOM countries are some of the smallest and most vulnerable in the world, which severely inhibits the ability of individual members to respond to this changing economic system. Production specialisation in a few areas — bananas, sugar, rice — is a direct result of limited resource endowments, which creates excessive dependence on international trade and increases vulnerability to external shocks. Rigid production structures and small domestic markets that impede scale economies result in undiversified economies and heavy reliance on imports that make these states extremely vulnerable to domestic and external shocks, particularly exchange rate fluctuations.
The overwhelming constraints to restructure economic bases and build competitive industries in the face of mounting external debt and the near collapse of the major export industries in many islands, called for a realistic assessment of development options available to the region. The growth and/or intensification of regional economic blocs worldwide—the Southern Common Market (MERCOSUR), the European Union (EU), the Association of South-East Asian Nations (ASEAN), the Central American Common Market (CACM), South Asian Free Trade Area (SAFTA), Association of South East Asian Nations—ASEAN—Economic Community (AEC)—suggests that developed and developing countries are utilizing regional free markets as a buffer against global competition where they can expand markets, increase production and refine strategies. CARICOM leaders agreed to a regional development strategy premised on the deepening of regional economic integration through the creation of a Single Market and Economy. The Grand Anse Declaration of 1989 provided the framework for an “integrated development strategy” with private enterprise and the market being the principal drivers. The pooling of resources and skills under a CSM(E) was seen as the only viable solution to combat the region’s competitiveness deficiencies.

Understandably, much emphasis is being placed on the creation and harmonisation of institutional and economic policy mechanisms since these will provide the framework for competitive production in the Single Market, launched in 2006, and the Single Economy component, which is scheduled to come on stream in 2015. However, there appears to be little focus on issues such as firm competitiveness and sector productivity within the wider CSM(E) process.

Globalization is giving rise to new areas of advantage where location of value-added activities and processes within global value chains are becoming more significant that competition based on comparative advantage (Kogut, 2004, p. 280). This suggests that firm strategies are even more critical to the competitiveness game since comparative advantage and firm advantage are more de-linked than ever before. If the intention of the CSM(E) is to facilitate the creation of regional firms, or to build firm competitiveness to the level at which they can successfully compete in the regional and extra-regional markets, then issues such as firm strategies, increasing productivity, product selection and governments’ role in these processes must also be urgently addressed.

An underlying factor in understanding the development problematic confronting CARICOM states in a globalized economy is issue of *small size*; specifically how inherent and permanent features of smallness affect ability to respond to changes in the world trade system and the implications for growth and development.

Section one situates CARICOM within the broader context of development issues and challenges confronting small states in an era of globalisation. The fact that they are islands increases their vulnerability and diminishes their capacity to respond to international developments. Section two examines CARICOM’s competitiveness in the global economy and identifies some of the major factors accounting for this lack of competitiveness. Section three focuses on the CSM(E), its rationale, objectives, major instruments and progress to date. Section four highlights some critical deficiencies of the CSM(E) as these relate to building firm competitiveness. These include mechanisms for assessing firm competitiveness, identification of productive activity, measuring productivity and building regional firms. Finally, section five
provides some policy guidelines for both governments and firms on building firm competitiveness.

**Globalisation, Small States and Development: A CARICOM Perspective**

The impact of size on economic growth and sustainable development has generated significant interest in recent years. Markets and productive factors are being globally integrated, barriers to trade are being eroded and global competition is intensifying. Globalisation in theory presents opportunities for developing countries to accelerate growth rates and increase living standards through trade, investment and capital flows, yet the gap between rich and poor countries is widening because of fundamental disparities in countries’ abilities to exploit opportunities in the global market place.

A principal causal factor advanced by researchers to explain disparities is the issue of small size. Until the Rio Summit (1992) and the Barbados Conference on Small Island Developing States (SIDS) (1994), the special development challenges confronting small states and in particular small island states, were merely “talked about” in international fora (Grey, 2006). It was the Barbados World Conference on SIDS (1994) and its Programme of Action (POA) that focused global attention on small size as an inhibitor of development. While there is no firm consensus on what constitutes a small state, the literature has at times identified land size and population size ranging from ‘very small’ — up to 1.5 million to ‘small’ — over 1.5 million and under 10 million Briguglio (1997) as evidence of smallness.

Characteristics common to small states were identified by the Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States (2000) and underscore the severe challenges faced by small economies in adapting to a changing world trade regime. These include remoteness and insularity, susceptibility to natural disasters, limited institutional capacity, access to external capital, diversification and openness. The small state agenda is evident at the WTO where the issue of special and differential treatment (S&D) for small developing states, particularly in the area of agriculture has emerged as a key negotiating item.

A proposal to the 2000 Special Session of the WTO Committee on Agriculture by 11 developing countries noted that S&D was “a fundamental building block of the multilateral trading system” and called for special advantages and flexibility for all developing countries to take account of their different needs and positions. Specific recommendations included:

- The prohibition of dumping by eliminating all forms of subsidies by developed countries;
- Allowing only developing countries to use the Special Safeguard Clause;
- Allowing developing countries to re-evaluate and adjust tariff levels in cases where cheap imports are destroying or threatening domestic producers;
- OECD countries should drastically reduce tariff levels on products of interest to developing countries (WTO, 2000a).

Although the interests and positions advanced by various developing country groups with respect to liberalisation of agricultural trade are diverse, the issue of S&D...
reflects a certain commonality of interest. As such, the ASEAN group, in pressing for S&D to be included within the framework of WTO Agreement on Agriculture, also mirrored the recommendations of the G-11. ASEAN’s proposal to the Special Committee on Agriculture noted that the “primary intent of S&D is to establish equity and fair competition where structural conditions across countries are different” (FAO, 2003). Similarly, the proposal introduced by the Small Island Developing States at the 2000 WTO negotiations on agriculture called for S&D to take account of the possible negative effects reform in agriculture would have on least developed (LDCs) and net food importing developing countries (NFIDCs) (WTO, 2000c). Proposals included:

- Secure market access to SIDS for one or two commodities produced commercially
- Binding, non-reciprocal preferential tariff rates in agriculture particularly to SIDS
- Non reciprocal access for agricultural exports under preferential trading arrangements with developed countries
- Technical assistance to developing countries, especially SIDS to meet costs of compliance with SPS measures and technical standards in the international market
- Short-term mitigation programmes to address negative effects of the liberalization process.

While it is important that developing countries, and SIDS in particular, are afforded S&D over a reasonable time-frame to get their economies in order, many small states, including CARICOM, are attempting to diversify their economies. Bernal (2001) noted that opportunities do exist for small states, particularly in the services trade where tourism and financial services are among the fastest growing sectors in the world economy, and have become important growth sectors for many small states. Gossling & Wall (2007) examine the economic significance of tourism for many SIDS, but observe that there are environmental costs that can affect sustainable development. While tourism has been a major revenue-generator for most CARICOM SIDS, competition from larger tourist destinations both in terms of the variety of tourism products offered and price, and weak linkages with other domestic sectors, has forced countries to explore other services.

While developed nations have urged poor economies to shift to non-traditional economic activities as a means of building competitiveness, attempts to diversify into offshore financial services have been met with the imposition of the Harmful Tax Competition Initiative by the OECD. The target of this scheme are 41 low-tax nations, mostly in the Pacific and the Caribbean, described as tax havens that have “harmful tax regimes”. The OECD, according to Mitchell (2004), aims to pressure these jurisdictions to sign an agreement to remove their low tax policies and repeal attractive financial privacy laws by threatening financial protectionism against them. Vlcek’s (2007) analysis of several Caribbean countries concludes that the implications for employment and revenue loss are quite severe. Marshall (2007) situates his analysis of the precarious position of Offshore Financial Centres (OFCs) of the South and particularly the Caribbean, within the context of a capitalism-driven
global financial governance structure that seeks to perpetuate the dominance of a few.

This is illustrated by the recent decision of the US to explicitly remove internet gambling from its obligations under the WTO’s Trade in Services Agreement, after Antigua filed a 2003 complaint claiming that restricting online gambling violated US free trade obligations under the General Agreement on Trade in Services (GATS). Washington has stopped banks and credit card companies from processing payments to online gambling businesses outside the country, which has effectively closed off the most lucrative market in the region—US$15.5 billion, since half of the world’s online gamblers are based in the US. Antigua is seeking the right to impose US$3.4 billion in commercial sanctions against the US, citing irreparable damage to its economy.

These observations suggest that the road to diversification and competitiveness will be a long and difficult one for small states. The liberalization of capital and product markets appear to be a new tool for developed nations to continue wealth accumulation at the expense of the most vulnerable states. In this new environment regional integration for development is a necessity for extremely small states.

Competitiveness and CARICOM Countries: An Assessment

In order to assess the competitiveness of CARICOM countries, it is necessary to first define competitiveness. While there is no universally accepted definition of national competitiveness, most practitioners agree that competitiveness involves a country’s ability maintain or expand its share of international markets while simultaneously improving its standard of living. This approach is evident in both the Organization for Economic Cooperation and Development (OECD, 1992) and the US President’s Commission on Competitiveness (1984) definitions of competitiveness.

If competitiveness is viewed in terms of ability not just to sell products in international markets over a sustained period, but also to increase market share over time, then CARICOM’s weak competitive position becomes very apparent. Under the various Lomé conventions signed between the European Union (EU) and the African, Caribbean and Pacific (ACP) grouping, CARICOM countries enjoyed preferential market access and pricing arrangements for their principal agricultural exports into the EU market.

Significantly, the region’s key exports—sugar, bananas, rice and rum—were assured guaranteed markets based on a quota system so the issue of competition did not arise. Further, these products entered the EU free of duty, which gave them an advantage over similar producers. Aid, the other component of Lomé, provided a continuous injection of capital that was required to boost living standards. In reality, CARICOM states were operating in an environment where gains were based not on firm or country competitiveness, but on the largesse of the EU. Thus, building competitiveness, enhancing productivity and diversifying economic activities to boost economic growth were not targeted as issues for immediate action.

By the 1990s, rapid globalization, developments in information and communication technologies (ICT) and moves toward the liberalization of trade in goods and services placed competitiveness at the forefront of every country’s agenda. For
CARICOM states, the competitiveness issue became even more of an urgent concern when Lomé IV ended in 1999 and negotiations for a new economic partnership agreement with the EU emphasized a new dispensation in EU–CARICOM relations; one based on reciprocity and partnership. Under the Cotonou Agreement of 2000, which replaced Lomé IV, the ‘special and differential treatment’ (S&DT) traditionally enjoyed by the region’s exports to the EU were to be reduced and eventually eliminated. Additionally, the aid package that CARICOM states had come to rely on would no longer be available. Instead, the region was expected to engage in reciprocal trade with the EU. CARICOM policymakers now understand that if trade is to be the engine of growth for development of the region, then competitiveness must be its principal driver.

Undoubtedly the international economic landscape has made competitiveness a critical necessity and a key determinant of firm and country success, but it has also made it more difficult for firms to build and sustain market share since they must defend their home markets while trying to compete internationally. Economic globalisation does, however, present significant opportunities to countries and firms if they understand the new dynamics of competition and can adjust strategies and organizational processes to tap into new areas of advantage.

Since firms, not countries, compete (Porter, 1998) the key challenge for any company today is to how to increase and sustain competitiveness — defined in terms of increased market share and/or percentage sales. For CARICOM firms, survival necessitates the adoption of strategies that focus on building domestic and regional competitiveness in the first instance as preparation for trading in extra-regional markets.

But firm strategy alone is an insufficient condition for competitiveness in today’s context. Firm, and by extension country, competitiveness depends on the effective interaction of a number of factors at the macro, industry and firm levels. Essentially, it is the synergy between policies and strategies at the macro, sectoral and firm levels resulting in superior productivity, which enables a country’s firms to expand and sustain their share of domestic and international markets (Mohammed, 2005).

The difficulty for CARICOM states in trying to address the competitiveness dilemma is that they must quickly devise strategies to build firm and industry competitiveness while simultaneously facing a three-pronged assault that affects their ability to channel resources into such strategies. Firstly, they must cope with the fallout of trade liberalization policies at home and the implications of free trade for their small, largely uncompetitive manufacturing sectors. Secondly, they are expected to restructure their economies without the volume of foreign exchange that their major agricultural exports once generated. Thirdly, these issues must be viewed in the context of inherent vulnerabilities — small size, undiversified economic bases, heavy dependence on imports, limited human and financial resources and susceptibility to natural disasters — all of which inhibit the pace and capacity of the region to effectively implement growth and development strategies.

An examination of CARICOM’s trade for the period 1996–2001 reflects some of these problems. CARICOM Secretariat data reveal that the region’s total imports grew from East Caribbean (EC) $22.9 billion in 1996 to EC$ 27.0 billion in 2001, an average annual growth rate of 3.4% over the period. Its exports during the same period grew by just 2.9% from EC$15.5 billion in 1996 to EC$17.5 billion in 2001.
This imbalance between imports and exports resulted in trade deficits throughout the period increasing from ECS$7.4 billion in 1996 to ECS$9.1 billion in 2001. Closer inspection of the composition of imports and exports over this period reveals a pattern of trade that has stifled CARICOM’s growth and competitiveness. The two major exports, according to standard industrial trade classification (SITC), were mineral fuels, lubricants and related materials, and food, which amounted to exports of oil and natural gas from Trinidad and Tobago, and primary agricultural products from most CARICOM states to major trading partners, the EU and the United States.

The EU was CARICOM’s largest market, accounting for 18% (ECS2.3 billion) of its total exports in 1996. The agriculturally dependent Organization of Eastern Caribbean States (OECS) accounted for the bulk of exports to the EU — 47.4% — while Jamaica and Barbados dominated agricultural exports to the EU with 30.8% and 19.0% respectively for the period 1996–2001. This pattern is the same for the period under consideration.

In terms of imports however, it is interesting that machinery and transport equipment was CARICOM’s highest imported commodity with an average contribution of 29.3% over the period. Manufactured goods were the second highest imported commodities, followed by minerals, fuels and lubricants for the period 1996–2001. What this pattern indicates is that most CARICOM states continue to focus on the production and export of a few, primarily agricultural commodities, geographically clustered around a few markets based on preferential treatment.

Given the acute dependence on trade for financing economic activity within these small economies, continued reliance on a trading system premised on preferential treatment that is now waning, and that exposes these economies to fluctuations in prices and demand for such exports, is now untenable. Most CARICOM countries, particularly the OECS microstates, are diversifying into services, particularly tourism and offshore financial services and this has accounted for some improvement in gross domestic product (GDP) and inflation rates over the last decade. However, there is concern that over-concentration on a few undifferentiated service areas will expose the region to intense competition, not just from international and regional players, but also from within CARICOM.

**Addressing the Competitiveness Challenge: The CARICOM Single Market and Economy (CSM(E))**

CARICOM attempts to boost trade through regional integration are not new. As early as 1965, member countries formed the Caribbean Free Trade Association (CARIFTA) whose principal objectives were to encourage the balanced development of the region and give these recently independent nations a united presence in international fora. It was envisaged that the removal of tariffs and quotas within the FTA would facilitate increased intra-regional trade, greater diversity of goods and services, and encourage fair trading practices.

This mechanism was replaced by a common market in 1973 as the region sought to coordinate functional and economic activities to accelerate development. It must be pointed out that the progression to a common market arrangement came at a time when the region was pursuing import substituting industrialization strategies (ISI)
and globally, economic integration flourished as countries attempted to intensify trade and build competitiveness behind protective regional barriers.

The decision to deepen economic integration through a Single Market and economy, articulated in the Grande Anse Declaration (1989), was the region’s response to the intensification of globalization and trade liberalization and the anticipated elimination of preferential market access for its agricultural products. The inability of ISI strategies to effectively diversify these economies and create internationally competitive industries, and the forced shift to export driven development strategies, underscored the region’s extreme dependence on trade and more significantly, how unprepared CARICOM firms were to compete in a liberalized trading environment.

CARICOM’s trade deficit almost quadrupled from US$1.140 billion in 1990 to US$4.264 billion in 2002 (Blake, undated). This was attributed largely to increased competition occasioned by the removal of trade barriers and reduced export volumes and lower prices as a result of the loss of preferential access to major markets. The impact of these factors on the region’s economic stability is quite profound, since the unit price of seven of the 11 most important CARICOM exports declined between 1994 and 2000, and the decline was more than 25% for five of these exports (Blake).

The anticipated erosion of market access and export earnings for the three most important agricultural exports—sugar, rice and bananas—due to reform in the EU’s Common Agricultural Policy (CAP) and the regional economic partnership agreement (REPA) to be negotiated with the EU, prompted CARICOM leaders to look seriously at deepening economic integration to facilitate economic diversification and competitiveness.

Described as an integrated development strategy, the CSM(E) provides a new framework for growth and competitiveness through the regional pooling of resources and the free movement of goods, services, capital, people and technology. The idea is to provide a framework in which open regionalism can flourish. By removing internal barriers to trade, production and investment, an enlarged, seamless economic space will be created that can spur increased economic activity within, while simultaneously enabling regional firms to compete in external markets.

Since small markets inhibit scale economies and limit technological and research and development (R&D) input into product development that is important for firm competitiveness, advocates of the CSM(E) anticipate that the pooling of resources and markets will create greater economies of scale, generate increased investment and intensify both the volume and diversity of intra-regional trade. This activity, it is hoped, would encourage the development of pan-Caribbean companies and brands that can invest in R&D and technology to drive firm competitiveness regionally and globally. A region-wide economic space would provide the testing ground for firms to enhance products/services and hone competitive strategies in preparation for the international market.

The Single Market (CSM) was established in 2006 with 13 participating member states,12 while the single economy component is now expected to be operational by 2015. Since a free trade area already existed within CARICOM, the issue of import duties on goods of CARICOM origin does not arise. Preparations for the single market have included the removal of further tariffs and quantitative restrictions in all member states and harmonization of policies to ensure intra-regional imports will be afforded preferential treatment over those coming from the rest of the world.
To date, member countries have focused on enacting domestic legislation and ensuring the harmonization of such legislation across the region on a range of issues that are necessary for the effective functioning of the single market. These include anti-dumping regulations, the establishment of a customs union, and a regional standards and quality regime to facilitate the free movement of goods. Issues such as harmonisation of domestic legislation to ensure standardised professional/skilled certification across the region in a range of disciplines; the creation of a regional accreditation body to synchronize policies and guide national accreditation bodies; the establishment of contingent rights (e.g. entitlement to health, education, insurance benefits) for spouses and children of skilled persons working in another jurisdiction under the CSM arrangement; the transference of social security benefits; and the provision of CARICOM passports are critical for the free movement of CARICOM nationals.

Member states must also remove any impediment to the right to provide services across the single market in accordance with the GATS. The development of domestic investment policy frameworks harmonised across the single market is another key element that will facilitate the free movement of capital. Additionally, the development of regional best-practice framework to ensure non-discriminatory government procurement, rights of establishment and competition policy legislation as well as the creation of the Caribbean Court of Justice, have been deemed essential to the effective functioning of the single market.

While the legislative and policy frameworks for the single market are being developed, a CARICOM-commissioned Special Task Force on the Single Economy has provided the road map for the implementation of the single economy. The CARICOM single economy involves further harmonisation of economic, monetary and fiscal policies to support the sustainable development of the region. It requires coordination of foreign exchange and interest rate policies and the harmonization of tax regimes and capital markets to ensure the convergence of economic performance across the region through the full integration of production and resources. Essentially, the CARICOM Single Market and Economy is to be the impetus for economic restructuring and intensification of productive activity within the region and the platform for a revitalized, competitive export sector that will drive the region’s future growth and development.

Some Deficiencies of the CSM(E)

The legislative framework is currently being developed to support the smooth functioning of the single market, and policies and mechanisms have been identified to get the single economy up and running by 2015, yet there are a number of issues that have not been specifically addressed by policymakers. Although CARICOM leaders seek to address concerns of key stakeholders, including academics, NGOs and trade union representatives that the CSM(E) is not solely about economics but will address the social and environmental problems facing the region, the bottom line is that this new development strategy is premised on the region’s ability to increase and sustain its export capacity in non-traditional products and services. Competitiveness is, therefore, critical.

While policymakers seek to create an environment that will facilitate firm activity within the single market and economy, this is the minimum requirement for building...
national competitiveness. If the region is to compete with other economic blocs, policymakers must be mindful that other groupings have recognized that a supportive macro-economic environment is a necessary but insufficient condition for firm, industry and by extension, national competitiveness, to develop. At the national level, countries such as the UK, Australia, Singapore, India and Ireland are already attempting to harness the potential benefits of the new global trading environment by transforming their economies from productive centres into knowledge economies.

Knowledge has become the key factor for effecting economic transformation and sustained competitiveness in organizations and countries. The ability of firms to monitor and learn from the key players in their industry both domestically and globally, to identify product trends and understand how global firms are applying new technologies, processes and marketing strategies, are necessary strategies that will enable firms to gain significant advantage over competitors. More critical is how these data are applied inwardly to tweak business strategy, to review and reshape the organization’s structure to relocate the firm on the competitive ladder.

A growing number of countries have instituted specific policies in which there is close collaboration amongst universities and research centres, industry and the government. Government’s role in this strategic alliance is to provide the funding for dedicated research that can lead to product/service development or innovation, which is necessary to drive industry competitiveness. Industry’s role is to advise researchers on product trends by constantly monitoring international product developments and marketing strategies. Given the significance of knowledge and R&D to firm and country competitiveness, a first step must be to develop knowledge economies throughout the single market and economy. It is also essential to create a more targeted regional innovation and research facility that will partner with the private sector to introduce new products and services for the regional and international markets.

The CSM(E) presupposes that domestic firms can automatically compete in regional markets. It does not take into account the fact that the majority of businesses in the single market are classified as small or medium enterprises (SMEs). Even within Trinidad and Jamaica, both of which can be described as having large manufacturing sectors, over 60% of enterprises are categorized as small, based either on employee size or average annual earnings. Most of these operations are geared solely for the domestic market and cannot be classified as competitive.

If the CSM(E) is to be effective, policies must also focus on growing firms. A first step will be to develop strategies that enable firms to first build national competitiveness before competing in the regional market. The policy framework that will provide the ‘enabling environment’ must include specific strategies to promote firm growth and reduce the significant percentage of business failures/declines.

At the macro level, critical elements will include targeted education and training policies, effective R&D and technological support to industries and firms, sector/industry development based on global trends and forecasting, appropriate investment incentives, more accessible financing mechanisms for business start-ups, particularly in the services sector and effective and cost-efficient infrastructural systems, especially ICT and transportation.

At the firm level, adoption of international industry best practice and standards, organizational restructuring with a focus on continuous training and skill
development, and the application of global industry data inwardly to tweak business strategy will all contribute to increasing productivity and can relocate the firm on the domestic and possibly the regional competitive ladder. Growing competitive firms will necessitate collaboration amongst governments, private sector and labour.

Another deficiency of the CSM(E) approach is that it assumes the larger domestic firms will harness anticipated scale economies and increased investment opportunities to improve product/service quality, variety and price. The expectation is that a regional market and economy will provide the setting for intense firm rivalry, which will force firms to innovate or leave the industry. While this is a reasonable expectation and has support in economic integration theory, CARICOM is already the principal market for most of its larger firms. Several business leaders in Trinidad and Jamaica maintain that the CSM(E) will not significantly affect their production and export capacities, since they already export to the region under the common market arrangement. The perceived benefits are linked to accessing specific skill sets at more competitive rates, and improving the region’s international trade negotiating position.

A major inhibiting factor to firm competitiveness and export performance is the level of risk aversion. Even the larger firms display a tendency to operate within the ‘safe’ regional market. In fact, many ‘exporters’ view the regional market as their final destination. In today’s aggressive competitive climate, firms must now be prepared to look beyond the regional market. Their strategic objective must now be to capitalize, compete and capture extra-regional markets.

Attention must be paid to policies and strategies that help firms to enhance competitiveness and that target and sustain markets globally. Many global firms recognize the high cost of R&D and technology—key inputs into new products and services—and are linking into global R&D and knowledge networks as a strategy to minimise cost and benefit from cutting-edge developments. Even if pan-Caribbean firms develop as a result of the CSM(E), would these firms have the quantum of financial and human resources to fund in-house R&D? Since brand loyalty is developed over time, would they have the marketing capabilities to compete with international brands? The issue of cost-effective sourcing of production inputs must also be addressed.

Global firms are finding it necessary to form strategic alliances or partnerships by linking into specific global clusters. This is an effective strategy for world-wide components sourcing (production and resource network), sharing the cost, including risk associated with R&D (R&D/technology network), or ensuring market presence and product promotion (distribution networks). Regional policymakers and firms must note that competitive success now hinges on using fewer resources to do things better, more productively. The new trading environment is both dynamic and global in range and so it is no longer sufficient for countries to come together to create the scope and scale for effective competition; firms must also link into clusters globally if they are to build and sustain regional and international competitiveness.

Towards an International Competitiveness Model for CARICOM

While the CSM(E) is considered essential for enhancing export competitiveness within the region, this paper has argued that several critical issues need to be urgently addressed; particularly strategies and policies that actually target firm competitiveness.
Given the significance of exports for the region’s development prospects, a model of international competitiveness is proposed that may provide a more realistic framework for assessing competitiveness in the manufacturing and particularly the services sectors of small economies such as those of CARICOM. Central to the model is the attainment of Platform Competitiveness. Firms should be encouraged to achieve national (Platform 1) competitiveness as a precursor to regional (Platform 2) competitiveness. These first two platforms enable firms to hone strategies, perfect their service or product by utilising global factor, R&D and distribution networks, thereby enabling them to target extra-CARICOM markets (Platform 3).

Essential to this model—called the Dynamic Model of International Competitiveness—is the interplay of policies and strategies at the macro, industry and firm levels, since competitiveness is a function of the interaction of a number of factors including resource endowments, macroeconomic framework, the business environment, political and economic stability, the investment climate, and R&D and educational policies and firm-specific strategies.

The model consists of two major components: the Hexagon of National (Platform 1) Competitiveness, which identifies six critical determinants that interact to drive innovation and productivity at the national level. Domestic firms attain national competitiveness by commanding a significant share of the local market and/or steadily increasing annual sales. The six determinants of national competitiveness are domestic demand, the role of clusters and supporting industries, factor conditions (e.g. skilled human capital, financial capital and natural resource endowments), the role of government, the business environment and the level and quality of entrepreneurship.

All these factors provide the macro and industry level support necessary to develop specific industries and facilitate their growth. However, in the case of Trinidad, three determinants—Demand, Entrepreneurs, Business Environment—emerged as the dominant elements because of their consistent, dominant influence on other variables across a range of industries.

The second major component relates to the firm-specific strategies that move firms from national to regional and international competitiveness (Platforms 2 and 3). These Critical Success Factors (CSFs) are Product/Service Quality, Product/Service Customisation, International Accreditation/Certification, and Global Alliances and Partnerships. While all these CSFs are important for moving to the different platforms, empirical testing reveals that Product/Service Customisation—the ability of firms to differentiate goods or services—coupled with the six determinants of the Hexagon, was the most significant firm strategy for national competitiveness. This may be explained by the fact that in a small market where most firms offer similar products/services, advantage is created by ability to tailor the product to the specific needs of the customer.

When coupled with the hexagon’s six determinant, International Accreditation and Certification (staff and firm certification based on international and industry standards) may be the most significant firm-strategy influencing regional competitiveness. This may be due to the fact that global players in various industries also populate the regional market and CARICOM firms wishing to enter the regional market must prove they have the relevant internationally recognized skills and capabilities. Regionally competitive firms, however, should utilise a mix of product/service quality and alliances/partnerships to access the international market, since
these enable them to tap into specific global clusters to gain global presence at minimum possible costs.

In light of the above discussion, it may be prudent for CARICOM policymakers to also focus on policies designed to stimulate entrepreneurial activity within various sectors by the Girvan Report. Such policies may include industry-specific training, better access to financing, industry-specific investment promotion, incentives/awards for innovation, competitive wages and collaboration/support for industry-related R&D. These polices should be accompanied by regional demand stimulation; the identification and designation of specific industries or sectors as strategic (the six determinants of the hexagon should be used to develop such industries/sectors); and identification of regional factor chains and production-sharing based on resource endowments and the availability of skills.

Conclusion

These specific strategies, if utilised along with the various policy frameworks being instituted to facilitate the single market and the impending single economy, may provide the foundation for dynamic economic restructuring and sustainable competitiveness of regional firms. The effectiveness of strategies proposed by this author or those being pursued by CARICOM governments in the implementation of the CSM(E) will ultimately depend on the level of commitment of CARICOM states. Recognition that competitiveness requires new approaches is not enough. This must be accompanied the willingness of states to make regional economic development an urgent priority.

Notes

3. The Special Safeguard Clause was introduced in the Uruguay Round to alleviate adverse economic situations arising from tarrification. Article 5 of the Agreement on Agriculture allows for certain countries (vulnerable, agriculture dependent developing countries) to temporarily impose tariffs above bound levels on certain agricultural products in cases of import surges or declining import prices.
4. See also Statement by ASEAN, Fourth Special Session of the Committee on Agriculture, WTO, G/AG/NG/W/7928, 15–17 November 2000.
5. Dominica, Jamaica, Mauritius, St Kitts-Nevis, St Lucia, St Vincent and Grenadines, Trinidad and Tobago.
6. SIDS argue that the range and stringency of measures, standards and inspection requirements placed on imported food by developed nations constitute real barriers to trade. This is exacerbated by lack of financial or technical resources to implement these stringent requirements or to engage in standard setting. See Submission by Cuba, Dominican Republic, El Salvador, Honduras, Kenya, India, Nigeria, Pakistan, Sri Lanka, Uganda, and Zimbabwe at WTO Committee on Agriculture Special Session G/AG/NG/W/37, 28 September 2000. Available at http://commerce.nic.in/trade/international_trade_papers_agriculture_19.asp (WTO, 2000b)
7. Many SIDS complained that decisions to liberalise their agricultural sectors resulted in import surges which brought about significant reduction in domestic production further deepening their food security problems (WTO, 2000c).
8. These include some of the smallest and poorest in the world — Anguilla, Antigua and Barbuda, Dominica, Grenada, Marshall Islands, Montserrat, Samoa, St Lucia, Tonga and Vanuatu.
9. *US President's Commission on Competitiveness* (1984) defines competitiveness as, “The degree to which a country can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously expanding the real incomes of its citizens i.e. national competitiveness is based on superior productivity performance.” According to Garelli (2002) the OECD defines it as the “ability to produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income”.

10. Lomé I–IV (1975–1999), were successive trade and aid packages disbursed by the EU to ACP countries. Under the Cotonou Agreement, which replaced Lomé IV, the emphasis of Regional Economic Partnership Agreements to be negotiated with the EU will be reciprocal trade not preferential trade.


12. Only 13 of CARICOM’s 15 members are part of the CSM: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts/Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The Bahamas and Haiti are not CSM members.


14. Based on empirical research undertaken by this author for PhD dissertation. See Mohammed (2005).

15. Empirical testing of the Trinidad and Tobago market revealed that national competitiveness is usually a precursor to international competitiveness, i.e., most domestic firms seeking to attain competitiveness in international markets are already competitive in the domestic market.

16. Developed by this author as part of PhD dissertation. See Mohammed (2005).


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